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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Mecosta County FIA for the period October 1, 1997 through April 15, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Mecosta County FIA had 44 full time equated positions (FTE's) at the time of our review. Mecosta County FIA provided assistance to an average 3,133 recipients per month during FY 1998, with total assistance payments of \$4,060,725 during that year.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Mecosta County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Dual Issuance	Modified Accrual Balance Sheet
ENP/Heat and SER Payments	Medical Transportation
Telephone Charges	Payroll
Procurement Cards	

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Mecosta County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We did, however, find instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

## **LOCAL OFFICE RESPONSE**

The management of Mecosta County FIA has reviewed all findings and recommendations included in this report. They indicated during the exit conference and in a memorandum dated April 19, 1999 that they are in general agreement with the report, and have implemented corrective action for all of the recommendations. Recommendations 3, 4, 6, and 7, were implemented prior to the completion of our on-site audit.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Mecosta County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Filing Canceled and Void Checks**

1. Mecosta County FIA did not file canceled and void checks in numerical sequence with the canceled checks in the month in which they were canceled or voided. Instead the local office filed the canceled and void checks in numerical sequence with all canceled checks.

Accounting Manual Item 405, page 5 requires canceled and void checks to be filed in numerical sequence by the month they clear the bank or are voided. Filing canceled and

void checks in numerical sequence by the month they clear the bank helps to ensure that all checks are properly accounted for.

WE RECOMMEND Mecosta County FIA file canceled and void checks in numerical sequence by the month they clear the bank or are voided.

#### Sign-O-Meter Record Reconciliation

2. Mecosta County FIA did not prepare the Reconciliation Per Check Register section of the Sign-O-Meter Record (FIA-4711) in accordance with established procedures. The check numbers of the checks signed on the Sign-O-Meter Record were entered and then reconciled with line 7 (Number of documents used during the month according to the accounting records) on the Monthly Controlled Document Inventory and Reconciliation (FIA-4351). This occurred because the month end physical inventory of controlled documents was not coordinated with the month end cutoff for fiscal transactions.

Accounting Manual Item 410.1, page 2 requires the beginning and ending numbers of the checks reported on the check register be entered in the Reconciliation Per Check Register section of the Sign-O-Meter Record.

WE RECOMMEND Mecosta County FIA record the beginning and ending numbers of the checks reported on the Check Register in the Reconciliation Per Check Register section of the Sign-O-Meter Record as required by Accounting Manual Item 410.1.

#### Inventory Control of Controlled Documents

3. Mecosta County FIA did not maintain adequate inventory control over the use or record keeping of controlled documents. Our review disclosed the following:

- a. The Local Office did not coordinate the month end physical inventory of Voucher Checks, Official Cashiers Receipts, and Purchase Orders with the monthly cutoff date for fiscal transactions. As a result the monthly physical inventory was taken after documents had been used in the subsequent month. The physical inventory should be coordinated with the cutoff date for fiscal transactions to ensure a proper cutoff before any documents are used in the next month's business.
  
- b. The beginning and ending series numbers and the number of documents recorded on Line 7 (Number of Documents used during the month according to the accounting records) on the Monthly Controlled Document and Inventory Reconciliation (FIA-4351) for Voucher Checks, Official Cashier Receipts, and Purchase Orders did not agree with the accounting records. This resulted from taking the monthly physical inventory after documents had been used in the next month.

Accounting Manual Item 403, page 16 requires the beginning and ending series numbers of documents used on the Check Register, Cash Receipts Register, and Purchase Order/Invoice Register (FIA-2084) to be entered on line 7.

- c. Fiscal staff has access to the bulk supply of Voucher Checks, Official Cashier Receipts, and Purchase Orders currently stored in the fiscal office vault. The LO uses the alternate control procedure of having staff independent of the fiscal office perform a physical inventory and reconciliation at month end. The Office Manager then verifies the physical inventory and reconciliation with the fiscal records and Controlled Document Log (FIA-4070). However this control

procedure is ineffective if the control documents and physical inventory and reconciliation at month end are not completed accurately and timely.

WE RECOMMEND Mecosta County FIA coordinate the month end physical inventory and reconciliation of Voucher Checks, Official Cashier Receipts, and Purchase Orders with the fiscal office cutoff date for transactions.

WE also RECOMMEND the series numbers of documents used on the Check Register, Cash Receipts Register, and the Purchase Order/Invoice Register be recorded on line 7 of the Monthly Controlled Document and Inventory Reconciliation.

#### Preparation of Mail Logs

4. Mecosta County FIA did not follow established procedures when recording mail receipts on the mail logs. Returned local office checks were recorded on the same mail logs with receipts that were deposited in the Social Welfare Fund.

Accounting Manual Item 431, page 1 requires the FIA-61 (Record and Disposition of Checks/Warrants) to be used to record warrants and locally issued checks that are sent/returned to the LO for disposition.

WE RECOMMEND Mecosta County FIA record locally issued checks that are sent/returned to the LO for disposition on the FIA-61 (Record and Disposition of Checks/Warrants) as required by Accounting Manual Item 431.

#### Reconciliation of the Security Officer Log Report

5. Mecosta County FIA did not reconcile the transactions listed on the Security Officer Log Report (PD-180) with a revised Client Information System Enrollment Profile/Security form (FIA-3974A).

CIS Security Policy (L Letter L-97-063) states that the reconciler must review the report to assure that the listed operator enrollments and changes are supported by a signed FIA-3974A plus any other appropriate documentation. The reconciler also verifies that the Local Office Client Information System (CIS) Security Coordinator has not assigned him or herself an additional operator ID or operator status that would permit inappropriate CIS access.

WE RECOMMEND the Mecosta County FIA staff reconciling the Security Officer Log Report (PD-180) verify listed transactions with a signed Client Information System Enrollment Profile/Security form (FIA-3974A) plus any other appropriate documentation.

#### Knowledge of Internal Revenue Service (IRS) Security Procedures

6. Mecosta County FIA mail room and Family Independence Specialist (FIS)/Eligibility Specialists (ES) staff, in some instances, were unaware of the proper procedures to follow for unsigned Unearned Income Notices (FIA-4487A) received from a client or that a Designated Staff Person (DSP) was responsible for controlling unsigned FIA-4487As. Program Administrative Manual Item 800 describes the procedures and confidentiality requirements for unsigned tape matches. Knowledge of proper procedures is necessary to ensure that confidentiality is maintained for all information received from the IRS

WE RECOMMEND Mecosta County FIA familiarize staff with all aspects of the confidentiality requirements for information received from the IRS.

## **RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS**

The following are areas where we have identified a control weakness at Mecosta County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

### **Inventory Control of Dial-A-Ride Tickets**

7. Mecosta County FIA did not establish adequate control over the inventory supply of Dial-A-Tickets. A ledger card was maintained by the fiscal office for purchases and issues, however, the LO did not perform a monthly physical inventory by staff independent of the fiscal office and record it on the FIA-4351 (Monthly Controlled Document Inventory and Reconciliation).

Internal Control Criteria established by the Family Independence Agency states that pre-numbered disbursement documents are to have a monthly physical inventory performed that is documented on the Controlled Document Inventory and Reconciliation form (FIA-4351).

Failure to establish inventory control of the Dial-A-Ride tickets increases the risk that improprieties may occur and not be detected within a reasonable period of time.

WE RECOMMEND Mecosta County FIA perform monthly physical inventories of the Dial-A-Ride tickets that are documented on the Monthly Controlled Document Inventory and Reconciliation (FIA-4351).

### **Payroll Reconciliation and Filing**

8. Mecosta County FIA has not established adequate control over the payroll process. The Employee Time and Attendance Reports (FIA-4299) were reconciled with the Hours



Entered Report (PR-180) received from the Central Systems Data Center. Also the time and attendance reports were maintained in a file that was controlled by the timekeeper.

Internal Control Criteria established by the Family Independence Agency requires reconciliation of a printed copy (after time and attendance is released) of the Time and Attendance Summary Report (HR-332A) with the individual Employee Time and Attendance Reports (FIA-4299). The payroll documents are to be maintained in a file independent of the timekeeper for audit purposes.

WE RECOMMEND Mecosta County FIA reconcile the Individual Employee Time and Attendance Reports (FIA-4299) with a printed copy of the released Time and Attendance Summary Report (FIA-HR332A).

WE ALSO RECOMMEND Mecosta County FIA has staff independent of the timekeeping function maintain the file of payroll documents.